

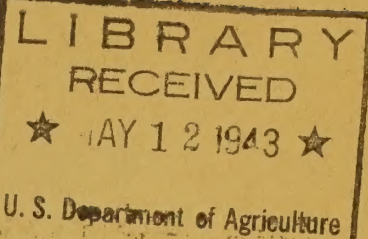
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A PROPOSED PLAN FOR INSURING WAR CROPS

Prepared by the

U.S. Federal Crop Insurance Corporation

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FOREWORD: Numerous inquiries have been received as to the possibility of stimulating the production of essential war crops through some type of Federal Insurance.

In general, these inquiries have pointed out that many farmers are inclined to "think twice" before risking a substantial investment in new war crops or in the sizeable expansion of existing acreages. In either case, the risk burden occasioned by the new or greatly expanded production would be added to the already increased risks of wartime production resulting from various shortages.

Prompted by these requests, the Federal Crop Insurance Corporation has studied the possibilities of Federal Insurance to cover the investment costs of farmers in their wartime expansion of these urgently needed farm products. The results are outlined here in two sections. The first section covers the general consideration of need for and desirable characteristics of such an insurance program. The second section deals with the main features of the plan itself.

GENERAL CONSIDERATIONS OF A PLAN  
FOR FEDERAL INSURANCE OF WAR CROPS

Following is a proposed plan for the insurance of war crops. Its primary purpose is to provide an additional incentive for the production of certain crops necessary in the war effort as designated by the Secretary of Agriculture. The plan proposes to do this through insurance guaranteeing the producer a return of at least the average investment in his war crop.

WARTIME RISKS  
GREATER

With the present wartime shortages of labor, equipment, and other essentials, many farmers may be inclined to plant only the acreage they are confident they can harvest. They will hesitate to take the financial risk of planting such a crop and then speculating on whether or not labor and



equipment will be available. However, with insurance protection covering losses due to wartime shortages, many will be willing to plant larger acreages than they are sure that they can carry to maturity and harvest with the present outlook for labor and equipment. If the farmer at the Government's request has brought a large acreage through to harvest, it will then become a national responsibility to see that such crop is harvested.

NEED FOR  
INSURANCE

While supported prices provide a guarantee against the price risk, this price support does not afford protection to the man who does not raise a crop. Incentive payments offer some protection against crop failure and may be ample in stable production areas but should be supplemented by insurance protection in those areas where production risks are high because the farmer is planting a crop with which he is not familiar, where wartime shortages of labor, material, or equipment may affect his production, and where yields are low in relation to cost. It is often in areas where yields fluctuate widely and average yields are therefore low that the greatest possibility of expansion in production exists. Because of the high risk in such areas or on such farms, insurance is particularly needed.

ENCOURAGES  
HARVEST

Since under this plan the coverage is progressive and is larger if the crop is harvested than if it is not harvested, there would be an incentive to carry these crops through to maturity and harvest them under circumstances where the prospect of a poor yield might otherwise justify abandonment. Since the coverage would be higher if the crop were planted on the average or better than average land on the farm the incentive will be for the farmer to plant his war crop on the more productive land on the farm.

POSITIVE SUPPORT;  
NO PENALTIES

Under this plan the insured is not penalized for planting less than his acreage goal. Hence there is no incentive to keep the farm goal as set forth on the farm plan sheet as low as possible. This insurance protection itself, as a guarantee of investment, would provide the incentive not only for signing up for a large goal, but for planting an acreage in excess of that goal. On the other hand, the placing of penalties on the insurance protection for not reaching the goal would work a hardship in some cases where the planting of the full goal was made difficult because of the size of the fields established, rotation of crops, availability of seed, etc., or where the planting of the full goal might be made impossible because of certain conditions of wartime shortages of labor, materials, equipment, etc. Furthermore, insuring the crop whether or not the goal is reached will not work a hardship on the producer who had requested a relatively high goal because of patriotic motives as compared to similar farms that may have a small goal or no goal at all.



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PLAN NOT  
INFLATIONARY

The proposed plan is not of an inflationary character. Whatever money is paid out as indemnities will be paid to those individuals who have had crop failure and will only replace the investment they have made in attempting to produce the crop. It will not add to the purchasing power of those individuals who have already received a normal income through the production of a crop.

ADMINISTRATIVE  
COSTS MINIMIZED

One feature of this plan is that no expense would be involved for administration in cases where the farmers produce an income sufficient to equal the investment. In other words, work would be involved only in adjustment of losses and if losses did not occur, there would be no administrative expense involved. This would eliminate any contact with a large majority of producers.

STRENGTHENS  
FARM CREDIT

Many farmers will obtain production loans from the Department of Agriculture. If a crop is not produced, those loans will be difficult to collect and in some cases may be uncollectable. If insurance protection is given, it is reasonable to provide that a production loan could be collected out of the indemnity. Not only would a sound loan program be strengthened thereby but individual farmers would not be burdened with the repayment in future years of loans they could not pay in 1943 because of crop failure. Such persons will be in a better position to borrow for their 1944 credit needs. Farmers who did not borrow for the 1943 crop but received an indemnity when their crop failed will be in a position to plant their 1944 crops without obtaining credit advances.

SEPARATE  
PROGRAM

In offering this program of insurance on war crops, it would not be desirable that the present reserves of the Corporation be involved for the payment of losses. It is believed that the funds involved in the operation of such a program should be separate and apart from those of the regular commodity income insurance program now offered on cotton and wheat crops.

COSTS  
AVAILABLE

Investment costs have been accumulated and overall estimates of total cost of the program on most of the war crops are now available.



## HIGHLIGHTS OF A PLAN TO ENCOURAGE PRODUCTION BY INSURING WAR CROPS

### CROPS DESIGNATED; INSURANCE AUTOMATIC

Certain crops would be designated by the Secretary of Agriculture as subject to an insurance guarantee. All producers who sign an approved farm plan including a farm war goal for any insured crop would automatically have insurance protection without cost on their acreage planted to such crop. If the full acreage of the farm goal was planted or the goal was exceeded, the indemnity in general would be for the amount by which the income realized from the crop was less than the investment in the crop as established or estimated under the regulations. If the full goal was not planted, the basis for settlement might be reduced somewhat to provide an incentive for planting the full acreage.

### LOSSES COVERED; RISKS DEFINED

This type of insurance will cover not only loss in yield but loss in quality due to unavoidable causes. Unavoidable causes insured against would include such hazards as drought, flood, hail, wind, winterkill, fire, tornado, storm, insect infestation, animal pests, plant diseases, excess or deficient moisture, etc., and wartime shortages of labor, supplies, equipment, and other essentials. It would not include protection against losses due to neglect or malfeasance, theft, use of defective or unadapted seed, failure to properly prepare the land for seeding or properly to seed, harvest, thresh, or care for the insured crop, or failure to reseed in areas and under circumstances where such is customary.

### INSURANCE COVERAGE BASED ON COSTS

The amount of insurance coverage would be in dollars. It would be based upon the average or typical investment in the crop including, essentially, only direct but not overhead costs. It would not be confined to cash costs but would include, for example, labor costs, land costs and machinery costs. Custom rates in many cases would provide a basis for estimating the cost. Each producer would be insured not for his own investment in the crop but for an average or typical investment subject to reduction at the time of loss adjustment if it was found that certain costs had not been incurred.

### COVERAGE PROGRESSIVE; THREE STAGES IN YEAR

The coverage would be progressive, increasing in three stages. The first coverage would usually include the cost of preparing the land, fertilizer, seed, and planting. Fertilizer costs might not be included in full if a material part of the benefit is applicable to a subsequent crop in the same or a later year. If a stand is not obtained and the entire acreage or any portion thereof is released for other use, these costs would be the amount of the coverage for such acreage. If the crop is reseeded, the estimated cost of the reseeded will be added to the coverage.



SECOND STAGE COVERS      For the second stage including the growing season,  
GROWING COSTS      the additional coverage would include cultivation  
costs, irrigation, fertilizer applied in growing  
season, and a reasonable amount for the use of the land if, upon failure  
of the crop, the acreage cannot be replanted to another crop.

THIRD STAGE      The additional coverage for the third stage would  
COVERS HARVEST      include harvesting costs, probably certain pro-  
cessing on the farm in the case of some crops, and  
the cost of hauling to market. It would not include storage cost as the  
protection would generally terminate before storage. With this increased  
coverage for harvesting, the producer would find it profitable to har-  
vest crops which might not otherwise pay the cost of harvesting.

INSURED COVERAGE      The insured coverage for the farm would be built  
FLEXIBLE FOR FARM      up by adding together the coverage for all acreages.  
Thus, if the acreage planted included 10 acres  
which was released shortly after planting because a stand was not obtained,  
and 20 acres that was not harvested at maturity because the crop thereon  
was a complete failure and 30 acres that was harvested, the coverage for  
the farm would include only the investment for the first stage in the  
10 acres, the investment for the first and second stages in the 20 acres  
and the investment in all three stages for the 30 acres harvested. The  
indemnity would be determined as the amount by which the value of the  
crop harvested from the 30 acres was less than the combined coverage built  
up for the entire 60 acres. If the entire 60 acres had been released  
shortly after planting because of failure to make a stand, the indemnity  
would have been the amount of the coverage during the first stage on the  
60 acres as the production would have been zero. If the crop on the  
entire 60 acres has not been released because of early damage but proved  
to be a complete failure and such acreage would not be harvested, the  
indemnity would have been the sum of coverages on the 60 acres for the  
first two stages since the production would have been zero. Thus, under  
this plan the coverage can be built up not only through three stages but  
with portions of the acreage reaching different stages. In all cases  
the indemnity will be the amount by which the value of the crop harvested  
falls short of this coverage.

COVERAGE FIGURES      County coverage figures would be proposed by  
BASED ON COUNTY      county committees, reviewed and adjusted by state  
committees and by the Federal Crop Insurance Corpo-  
ration so that they would be consistent as between counties and states  
and not excessive.

FIGURES TO      To determine what the coverage would be on various  
REFLECT '43 COSTS      crops in various areas, costs of production  
studies are being reviewed and reworked to elim-  
inate overhead costs. Labor costs, fertilizer costs, etc., are being  
revised to reflect 1942 levels. These figures will be the principal basis



for guiding counties in submitting tentative coverage figures on the 1942 level basis and will be used by the state committees and the Federal Crop Insurance Corporation in approving or disapproving submitted figures. These tentative figures will later be increased or decreased to 1943 levels before indemnities are determined.

INCOME REALIZED  
FROM THE CROPS

Supported prices will be in effect for most of these crops. Consequently, in adjusting losses reliance will not have to be based upon the price received by the insured farmer in local markets. Adjustments will be made upon the completion of harvesting (including threshing) on the basis of the quantity and quality of the production at the time of harvesting, and values applicable to the county. Such values shall be the loan values applicable to the county or the current price that can be obtained if it is higher except that if the production or any part thereof is of a quality not acceptable for loan, a price lower than the loan value may be used.

The amount of income realized shall include:

1. Value of the portion of the crop sold or to be sold or on which a commodity loan has been or is to be obtained.
2. Value of the portion of the crop harvested and retained for farm consumption.
3. Value of the portion of the crop saved as seed.
4. Salvage value of crops not harvested but fed off.
5. The value of by-products of the crop based on current prices.

PROGRAM SIMPLE  
TO ADMINISTER

The program would be kept as simple as possible. The Corporation would determine policies within the broad framework of the legislation and Department policy, prepare regulations, procedures, forms, etc., and pay indemnities. The Agricultural Adjustment Agency, through its Washington Office, state committees, and county committees, would carry out the field work.

NO APPLICATION  
REQUIRED

There would be no application required for insurance as in the case of the present insurance programs. Eligibility for insurance would be determined by the signing of a farm plan in any area where the growing of the crop is approved by the Department of Agriculture.

FIGURES LIMITED  
TO LOSS FARMS

Acreage figures would be needed for insurance only in the event a loss is claimed. In case a loss is claimed, a definite determination of acreage would have to be made. If definite acreage determinations had been made for computations of other farm program payments, such acreage determinations could be used for insurance purposes.



OUTLINE FOR  
LOSS ADJUSTMENT

Essentially, the only work involved in counties for this insurance protection would be the adjustment of losses. Adjustment of losses would be made under the general supervision of the county committee. This adjustment of loss would be similar to adjustment of losses under the present wheat and cotton programs. The insured would be required to give notice of damage to the crop or probable loss in sufficient time to permit an inspection before the crop is harvested or other use is made of the insured crop. An inspection of the farm will be made in all cases when an indemnity is claimed or an early release of acreage is requested. The adjustment work would involve the measurement or determination of the amount of production, the grade or quality and the price to be used for determining the value of the crop. After the adjustment of loss, the claim for indemnity, signed by the insured and the adjuster, would have to be certified by the county committee and the state committee. After such claims had been properly certified they would be subject to payment by branch offices of the Corporation.

PROGRAM CAN BE  
ANNOUNCED AT ONCE

The program should be announced and publicized as early as possible so that farmers will be encouraged to meet or exceed their goals. Information should be given as to the items of cost that will be included in the coverage. Coverage figures cannot be definite until the season has advanced and information is available on 1943 costs. The announcement should also include the conditions which must be met in order to qualify for full insurance protection.

INSURANCE AVAILABLE  
TO EVERY PRODUCER

Insurance would be available to every producer who signed an approved farm plan on the acreage of the crop planted regardless of whether or not he meets his goal. This insurance protection itself, as a guarantee of investment, would provide the incentive not only for signing up for a large goal but for planting in excess of that goal.

ENCOURAGES  
GOOD FARMING

In order that there will be an incentive to increase production through obtaining high yields as well as planting acreage goals, provision would be made that insured crops should be planted on land of average quality for the farm or better than average quality and in the event the insured crop was planted on acreage of poorer than average quality, the indemnity would be reduced. The following of good farming practices, the use of proper seed, and proper care in the planting, cultivating and harvesting of the crop would be required as a condition of obtaining full indemnity for loss. These requirements as a condition of having full protection would place emphasis upon getting high yields as well as upon planting acreage goals.

LANDLORD TENANT  
RELATIONSHIPS

It is not feasible to determine indemnities separately for landlord and tenant because many variations are involved in both the contribution to cost by landlord and tenant and sharing of the crop by landlord and



tenant. To treat each independently would involve many inequities with much higher risks in some cases on one than on the other because the share in production is seldom proportional to the contribution to the costs of production. Therefore, the plan calls for the determination of the indemnity for the farm. Both landlord and tenant would sign the Statement in Proof of Loss designating the share of indemnity that would go to each. This share need not necessarily be on the basis of their share in the crop but might involve also the contribution of each to the cost of production.

**TERMINATION OF PROTECTION** The insurance protection would terminate upon completion of harvesting of the crop (threshing for crops where applicable) unless in certain crops some processing on the farm is required. Hence, the insurance protection would not cover losses during storage.

**INDEMNITIES APPLIED ON PRODUCTION LOANS** Any indemnity due would be subject to deduction for principal and interest on money loaned by the Department for 1943 farm production. Rights to the indemnity payment would not be assignable to other creditors.